

17. Final Points to Remember

- There is a good chance your current or prospective insurer is looking at your credit.
- Ask your insurance agent or company if your company uses credit information, how it is used, and whether it affects your rate.
- Get a copy of your credit report from each of the three national credit bureaus and correct any errors. Tell your insurance agent and company about any errors and tell them your side of the story.
- Improve your credit history if you have had past credit problems. Ask your agent or company for the top reasons (factors) that your insurance credit score is low, and work to improve those pieces of your credit history. If you are paying higher premiums because of your credit history and your credit history improves, ask your agent what you can do to improve your insurance credit score.

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For more consumer information visit the Bureau's web site at:

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A Consumer's Guide...

Understanding How Insurers Use Credit Information for Personal Auto and Homeowners Insurance

A Publication of the Maine Bureau of Insurance



UNDERSTANDING HOW INSURERS USE CREDIT INFORMATION



Many personal auto and homeowners insurance companies look at consumer credit information to decide:

- Whether to issue or renew an insurance policy
- How much premium to charge for insurance

This brochure will help you understand how insurance companies use your credit information and how this business practice affects how much you pay for insurance.

1. Can an insurance company look at my credit information without my permission?

Yes. Both the federal and state Fair Credit Reporting Acts (FCRA) say that insurance companies may look at your credit information without your permission when they review your application/information to decide if they want to insure you. However, you must be told either at the time that you apply for coverage or at your policy renewal (if you have not been previously told) that credit information may be obtained.



The laws that govern the use of credit information are: the federal Fair Credit Reporting Act, United States Code, Title 15, Section 1681, *et seq.*, the state Fair Credit Reporting Act, Maine Revised Statutes Annotated, Title 10, Chapter 210, and the law entitled, "Use of consumer reports in insurance underwriting" found in the Maine Revised Statutes Annotated, Title 24-A, Section 2169-B.

The federal law may be found on the Internet at <http://www.ftc.gov/>. Maine law may be found at the following link:

<http://www.mainelegislature.org/legis/statutes/24-A/title24-Asec2169-B.html>

whether insurance credit scoring disproportionately affects minorities or the poor. Insurance regulators nationwide are currently examining this issue.

16. Where can I get more information?

- ▶ Ask your insurance agent or company if they have any educational material that explains how your insurer uses credit.
- ▶ Contact the Bureau of Insurance by calling our Consumer Assistance Hotline toll free at 1-800-300-5000 (in state) or visit our website at: www.maine.gov/insurance.
- ▶ If you have a complaint about your credit report, contact the Maine Office of Consumer Credit Regulation at 1-800-332-8529 or TTY 888-577-6690 or visit their website at: www.credit.maine.gov. You may also request the brochure called [Downeaster Consumer Guide to Credit Bureau and Credit Reports](#) or you can download the brochure by going to their website listed above.
- ▶ Contact the Federal Trade Commission for information about the FCRA or their consumer brochures on credit. Call 877-382-4357 toll free or visit their website at: www.ftc.gov.
- ▶ Choice Point offers a service which allows consumers to see, for a fee, the insurance credit score that would be developed under its scoring model. (www.choicetrust.com.) There are several different models in use by insurers, and the Choice Point score may not be the one your insurer is relying upon. You should ask your insurer which model it uses.
- ▶ Search the Internet, but be sure the information you find explains how *insurers* (not lenders) use credit information.
- ▶ Contact your local Cooperative Extension Service for information about improving your credit history.
- ▶ Fair Isaac (FICO) is a company that provides information to the three credit reporting agencies. A portion of their web site under *Credit Education Documents* provides free information about credit scores, how they are determined, what you can do to improve your score, what is in a credit score, etc. You can find the free information at: www.myfico.com.

If you cannot make a payment, talk to your creditor. Work to reduce the amount you owe, especially on revolving debt like credit cards.

- ★ Limit the number of new credit accounts you apply for. Several applications for credit in a short time will usually lower your credit score.
- ★ Keep at it. Your credit history will improve over time if you make changes now and continue to improve. If you manage your credit better, your credit score will improve over time.

13. Where can I go for help with credit problems?

If you cannot resolve your credit problems alone, a non-profit credit counseling organization may be able to help you. Non-profit counseling programs are often operated by churches, universities, military bases, credit unions, and housing authorities. You can also check with a local bank or consumer protection office a list of reputable, low-cost financial counseling services.

14. Will my credit history haunt me forever?

Probably not. Credit history is just that – history. Once you find out what attributes of your credit history are affecting your insurance credit score, you can work to improve your record. If your premiums are high because of your credit history and you have taken steps to improve your record, you should:

- ▶ Ask your insurance company to re-evaluate your insurance credit score along with other insurance related factors at renewal. Beginning September 20, 2007, Maine law requires an insurer to obtain an updated credit report and re-underwrite and re-rate accordingly at policy renewal when requested by the insured. However, the re-evaluation cannot occur more often than once every 12 months.



15. Does using credit information penalize minorities or low-income consumers?

We do not know. Statistical studies have not conclusively determined

2. Why do insurance companies use credit information?

Some insurance companies have shown that information in a credit report can be used to predict which consumers are likely to file insurance claims. They believe that consumers who are more likely to file claims should pay more for their insurance.

3. How do insurance companies use credit history?

Insurers can use your credit history to **underwrite** your insurance policy or to **rate** your insurance policy.

Underwriting is a process in which an insurance company gathers information and decides whether or not to insure you.

In Maine, an insurer may not deny, cancel, or refuse to renew your auto or homeowners policy based **solely** on your credit information. In other words, if the insurer would not normally deny, cancel, or refuse to renew your policy **without** the credit information, then the insurer may not use the credit information against you.

Rating is a process that determines how much you will pay for insurance. Many insurers charge higher premiums based on various parts of an individual's credit history, some of which are described in question 6.

In Maine, an insurer may not base your renewal rates **solely** on credit information; other applicable rating elements must also be taken into consideration. Rating elements include your claims, vehicles and drivers insured, coverage and location for an auto policy, and the amount of insurance, distance to a fire station, location and improvements made to your home, etc. for a homeowners policy.

4. How do I know if an insurance company is using my credit information?

Ask your insurance agent or company if the company uses credit information for underwriting or rating. If credit history is used for underwriting, ask them how it affects your eligibility for coverage. If credit history is used for rating, ask them how it affects your insurance premium. Finally, you should also ask if the agent or company checks the credit history of other people insured on your policy, like family members, and how this may affect your policy.

5. If I don't have a credit history, will it affect my insurance purchase?

The answer depends on what the company is approved to do in Maine. Most companies do not penalize an insured for the absence of a credit score; however, a company may have filed information with the Superintendent of Insurance showing that the lack of credit information or inability to reach a score is a relevant underwriting or rating factor. If the filing has been approved, the company may use this information to determine premiums.

Sometimes an insurer will not be able to find a meaningful credit history for you. If you think you have a credit history but the insurer cannot find it, make sure your agent or insurance company has your correct name, address, social security number, and birth date.

6. What kind of credit information do insurance companies use?

Most companies that use credit information use an "insurance credit score." An insurance credit score is calculated using information about your credit history. Many insurance credit scores are weighted using recent credit history more heavily than old credit history. The factors used in many scoring models are:

- **Public records** (such as bankruptcy, collections, foreclosures, liens, and charge-offs). Public records generally have a negative effect on your insurance credit score.

investigates the errors to contact your insurer. Tell your insurance company right away and ask if the errors will make a difference in your insurance.

If the errors are big, tell your insurer that you are disputing the information and ask if they will wait to use your credit information until the errors are corrected. Small errors may not have much effect on your credit score. If the errors are big, it can make a significant difference in your premium.

12. How can I improve my insurance credit score if I have been adversely affected?

You must find out what attributes of your credit history were used to calculate your insurance credit score. An "attribute" is a piece of your credit history, such as filing bankruptcy or paying bills late. Companies that develop insurance credit scores, such as Fair Isaac and Choice Point, provide insurance companies with up to four attributes that have had a negative impact on your insurance credit score. The agent or company should be able to tell you which attributes of your credit history had the most impact on your score. In Maine, insurance companies are required to describe up to four factors that primarily influenced an adverse action (e.g. refusal to insure or an increase in premium) whenever the companies make an adverse action based on credit information.

Potential ways improve your credit score:

- ★ Don't try to "quick fix" your credit overnight. You could end up hurting your score. For example, your score may go down if you cancel a credit card that you have had for a long time.
- ★ Don't pay someone to "fix" your credit history. Some credit repair firms promise, for a fee, to get accurate information taken out of your credit report. Accurate information cannot be deleted from your credit report. Some credit repair firms promise to "fix" your credit report by challenging information in it. They charge you a fee to do that. This is something you can do for yourself without paying the fee.
- ★ Create a plan to improve your credit over time. Pay your bills on time. Pay at least the minimum balance due, on time, every month.

credit report (not your score) once each year *without charge* even if you haven't been denied credit. The [Office of Consumer Credit Regulation](#) (1-800-332-8529 or TTY 888-577-6690) has a form that you can use to request copies of your credit report from the three major national credit reporting networks. Most consumer groups suggest you get a copy of your credit report once a year and review it for errors.

11. What can I do if there is incorrect information in my credit report?

Tell the credit bureau. If you report an error, the credit bureau must investigate the error and get back to you within 30 days. The credit bureau will contact whoever reported the information. Credit information is often reported by banks, credit card companies, collection agencies, or a court clerk. If the investigation shows the information is wrong or if there is no proof it is true, the credit bureau must correct your credit record.

You can ask the credit bureau to send a notice of the correction to any creditor or insurer that has checked your file in the past six months. Once the errors are corrected, it is a good idea to get a new copy of your credit report several months later to make sure the wrong information has not been reported again. You should also get a copy of your credit report from the other national credit bureaus, which are listed below. If you correct an error on one report, it will not “fix” incorrect information on the other reports.

If the information in your credit report is correct, the credit bureau will not change it. However, the FCRA lets you file a 100-word statement explaining your side of the story, and the credit bureau must include your statement with your credit information each time they send it out. Make sure your insurance company has a copy of your statement, and ask if it will take your statement into account.

The three national credit bureaus are:

- Equifax (www.credit.equifax.com or 800-685-1111);
- Experian (www.experian.com or 888-397-3742); and
- Trans Union (www.transunion.com or 800-888-4213).

Tell your insurance company. Don't wait until the credit bureau

- **Past payment history** (the number and frequency of late payments and the days between due date and late payment date). Late payments tend to have a negative effect on your insurance credit score.
- **Length of credit history** (the amount of time you've been in the credit system). A longer credit history tends to improve your insurance credit score.
- **Inquiries for credit** (the number of times you've recently applied for new credit, including mortgage loans, utility accounts, and credit card accounts). Shopping for new credit tends to have a negative effect on your insurance credit score. In Maine, however, credit inquiries that are not initiated by you, inquiries related to insurance, promotional inquiries, multiple inquiries related to a single transaction, and certain other inquiries are generally not approved to be used in calculating a “credit score” for insurance reasons.
- **Number of open lines of credit** (including the number of major credit cards and department store credit cards). Having too much credit tends to have a negative effect on your insurance credit score; however, it generally is not a good idea to cancel a credit account that you have had for a long time. A long credit history may help your score.
- **Type of credit in use** (such as major credit cards, store credit cards, finance company loans, etc). Major credit cards may be treated more favorably than other types of consumer credit, such as store credit card or loans from a finance company.
- **Outstanding debt** (how much you owe compared to your available credit). Too much outstanding debt tends to have a negative effect on your insurance credit score.



Insurance credit scores are not uniform among insurance companies. Insurance companies have different views on which factors are more

important based on their experience and business practices. For example, one company might feel that public records are more important than past payment history. Another company might take the opposite view. How much weight a company gives each of the factors determines, to a large extent, your insurance credit score with that company.

7. What is a good insurance credit score?

There is no single answer to this question. Generally, a good insurance credit score will translate to lower premiums; however, insurance companies use different scoring calculations, so different insurers will likely give you a different score.

8. Is my premium based entirely on my insurance credit score?

No. Both auto and homeowners premium are based on factors other than credit history. Your auto insurance premium is based on factors such as your driving record, the type of car you drive, and where you live. Your homeowners premium is based on factors such as where you live and the cost to replace your home. Credit history is only one of a number of factors insurers use to rate your policy.

In Maine, an insurer can't base your renewal rates only on credit history. Other factors like your driving record or any claims that you have had must also be considered along with your credit history.

9. Must an agent or company tell me what my insurance credit score is?

No. In fact, the agent or company underwriter might not even know your score. Instead, all your agent or underwriter may know is that your score qualifies you for a particular rate or company within the group.

Even if you know your insurance credit score, it may not be useful to you. Your insurance credit score is a "snapshot in time," and a

significant change in your credit activity or a creditor's report can change your score.

10. If I don't know my score, and my score varies from company to company, how will I know if my credit history affects my insurance purchases?

Ask your insurance agent or insurance company. Carefully read letters from your agent or insurance company, especially if it relates to an increase in premium or a denial or cancellation of your coverage. The FCRA requires an insurance company to tell you if they take an "adverse action" because of your credit information. FCRA defines "adverse action" to include denying or canceling coverage, increasing premiums, or changing the terms, coverage, or amount of coverage in a way that harms the consumer. Examples of an "adverse action" include:

- Canceling, denying, or non-renewing coverage.
- Giving the consumer a limited coverage form.
- Limiting benefits, such as eligibility for dividends.
- Issuing coverage other than that applied for.
- Adding a premium surcharge.

If your insurer takes an unfavorable action due to your credit history, it must provide the specific reason for taking the adverse action, including up to four factors that primarily influenced the action. The reasons provided must be sufficiently clear and specific so that you are able to understand why the insurer took the adverse action. The insurance company must provide the name, address, and telephone number of the consumer reporting agency that supplied the credit-related information. You are also entitled to a free copy of your credit report from the credit bureau that supplied the credit information.

Federal law says you have a right to a free copy of your credit report if you've been denied credit or insurance, if you are on welfare, unemployed, or if you are a victim of identity theft. In addition, Maine law effective September 13, 2003, allows you to obtain a copy of your

